

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6859

BILL NUMBER: SB 293

NOTE PREPARED: Mar 12, 2012

BILL AMENDED: Mar 9, 2012

SUBJECT: Inheritance Tax.

FIRST AUTHOR: Sen. Smith J

FIRST SPONSOR: Rep. Turner

BILL STATUS: Enrolled

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill reclassifies a spouse, widow, or widower of a child of the transferor as a Class A transferee instead of a Class B transferee. It reclassifies a spouse, widow, or widower of a stepchild of the transferor as a Class A transferee instead of a Class C transferee. It increases the Inheritance Tax exemption amount for Class A transferees from \$100,000 to \$250,000 with respect to taxable transfers resulting from the deaths of individuals dying after December 31, 2011. It phases out the Inheritance Tax over 9 years beginning in 2013. The bill also phases out the Inheritance Tax replacement amounts payable to counties over 10 years beginning with amounts payable for the state fiscal year beginning July 1, 2012.

Effective Date: January 1, 2012 (retroactive); July 1, 2012.

Summary of Net State Impact: The annual net fiscal impact to the state General Fund from Inheritance Tax changes proposed in the bill is summarized in the table below. Under the bill, Indiana Inheritance Tax revenues will decrease beginning in FY 2013.

Fiscal Year Impact	Inheritance Tax Revenue Loss	Savings in County Replacement Expenditures	Net Increase (Decrease)
FY 2013	(\$13.5 M - \$16.1 M)	(\$10,000)	(\$13.5 M - \$16.1 M)
FY 2014	(\$34.0 M - \$38.9 M)	(\$20,000)	(\$34.0 M - \$38.9 M)
FY 2015	(\$47.8 M - \$52.2 M)	(\$31,000)	(\$47.7 M - \$52.1 M)
FY 2016	(\$61.6 M - \$65.4 M)	(\$41,000)	(\$61.5 M - \$65.4 M)
FY 2017	(\$75.4 M - \$78.7 M)	(\$51,000)	(\$75.3 M - \$78.7 M)
FY 2018	(\$89.1 M - \$91.9 M)	(\$62,000)	(\$89.1 M - \$91.9 M)
FY 2019	(\$102.9 M - \$105.2 M)	(\$72,000)	(\$102.9 M - \$105.2 M)
FY 2020	(\$116.7 M - \$118.5 M)	(\$82,000)	(\$116.6 M - \$118.5 M)
FY 2021	(\$130.5 M - \$131.8 M)	(\$93,000)	(\$130.4 M - \$131.7 M)
FY 2022	(\$144.3 M - \$145.1 M)	(\$103,000)	(\$144.2 M - \$145.0 M)
FY 2023	(\$158.1 M - \$158.4 M)	(\$113,000)	(\$158.0 M - \$158.2 M)
FY 2024 and after	(\$165.0 M)	(\$113,000)	(\$164.9 M)

Explanation of State Expenditures: *Department of State Revenue:* If the Inheritance Tax is repealed, there could be a savings to the state from a reduction in staff of the Inheritance Tax Section of the Department of State Revenue. The November 1, 2011, state staffing table indicates that the Inheritance Tax Division has 8 full-time employees with an annual salary of about \$300,000. Since staff will be needed to process returns during the phaseout of the Inheritance Tax, a specific savings due to staff reductions could not be estimated.

County Inheritance Tax Replacement Payments: The bill phases out replacement payments paid from the state General Fund to counties based upon replacement payments that they receive for any shortage of Inheritance Tax revenue in FY 2012 (the fiscal year before the Inheritance Tax begins to be phased out by this bill). Replacement payments are made in the fiscal year following the fiscal year in which counties experience revenue shortages. Thirteen counties received less revenue than is guaranteed by statute for FY 2011, totaling about \$108,000. Replacement payments have averaged about \$113,000 since FY 2006, and the estimated savings from phasing out the county replacement payments in the table above are based on this average. Because most counties retain more in Inheritance Tax revenues than is guaranteed in the replacement statute, most counties will not receive replacement payments. Replacement payments will end in FY 2023.

(See *Explanation of Local Revenues* for an explanation of county revenue loss and replacement procedures.)

Explanation of State Revenues: *Summary* - This bill is expected to decrease Inheritance Tax revenue annually beginning in FY 2013. Estimates are provided in the table below.

Fiscal Year Impact	Inheritance Tax Revenue Loss
FY 2013	(\$13.5 M - \$16.1 M)
FY 2014	(\$34.0 M - \$38.9 M)
FY 2015	(\$47.8 M - \$52.2 M)
FY 2016	(\$61.6 M - \$65.4 M)
FY 2017	(\$75.4 M - \$78.7 M)
FY 2018	(\$89.1 M - \$91.9 M)
FY 2019	(\$102.9 M - \$105.2 M)
FY 2020	(\$116.7 M - \$118.5 M)
FY 2021	(\$130.5 M - \$131.8 M)
FY 2022	(\$144.3 M - \$145.1 M)
FY 2023	(\$158.1 M - \$158.4 M)
FY 2024 and after	(\$165.0 M)

Background Information - The bill phases out the Inheritance Tax by providing an increasing credit against a beneficiary's Inheritance Tax liability. The credit would apply to transfers made by persons who die within the dates specified in the following table. The bill also increases the exemption amount for Class A beneficiaries from \$100,000 to \$250,000 beginning in CY 2012. The bill reclassifies a spouse, widow, or widower of a child of the transferor as a Class A transferee instead of a Class B transferee, and it provides that a spouse, widow, or widower of a child or stepchild of a transferor is a Class A transferee rather than a Class C transferee. The Inheritance Tax must be paid within 12 months after the decedent's death (within 9 months to receive the 5% early payment discount).

Inheritance Tax Credit	Transfers made from persons dying . . .
10%	2013
20%	2014
30%	2015
40%	2016
50%	2017
60%	2018
70%	2019
80%	2020
90%	2021
100%	2022

The estimated impact of the phaseout of the Inheritance Tax is based on the Revenue Technical Committee's FY 2012 forecast (published December 14, 2011). This forecast estimates FY 2012 Inheritance Tax at \$165 M. The estimated revenue loss from the exemption assumes that Inheritance Tax revenues would remain relatively constant in the future, absent the phaseout.

Explanation of Local Expenditures:

Explanation of Local Revenues: *Summary* - The Class A exemption increase and the phaseout of the Inheritance Tax and county replacement payments could result in an annual revenue loss to counties beginning in FY 2013.

Fiscal Year Impact	Local Share of Inheritance Tax Revenue Loss	Net Replacement Payments (Aggregate)	Net Increase (Decrease)
FY 2013	(\$1.2 M - \$1.4 M)	(\$10,000)	(\$1.2 M - \$1.4 M)
FY 2014	(\$2.9 M - \$3.4 M)	(\$20,000)	(\$3.0 M - \$3.4 M)
FY 2015	(\$4.1 M - \$4.5 M)	(\$31,000)	(\$4.2 M - \$4.5 M)
FY 2016	(\$5.3 M - \$5.6 M)	(\$41,000)	(\$5.4 M - \$5.7 M)
FY 2017	(\$6.5 M - \$6.8 M)	(\$51,000)	(\$6.6 M - \$6.8 M)
FY 2018	(\$7.7 M - \$7.9 M)	(\$62,000)	(\$7.8 M - \$8.0 M)
FY 2019	(\$8.9 M - \$9.1 M)	(\$72,000)	(\$9.0 M - \$9.2 M)
FY 2020	(\$10.1 M - \$10.2 M)	(\$82,000)	(\$10.2 M - \$10.3 M)
FY 2021	(\$11.3 M - \$11.4 M)	(\$93,000)	(\$11.4 M - \$11.5 M)
FY 2022	(\$12.4 M - \$12.5 M)	(\$103,000)	(\$12.5 M - \$12.6 M)
FY 2023	(\$13.6 M - \$13.7 M)	(\$113,000)	(\$13.7 M - \$13.8 M)
FY 2024 and after	(\$14.2 M)	(\$113,000)	(\$14.3 M)

The bill also phases out replacement payments paid from the state General Fund to counties based upon replacement payments that they receive for any shortage of Inheritance Tax revenue in FY 2012 (the fiscal year before the Inheritance Tax begins to be phased out by this bill). Replacement payments have averaged about \$113,000 since FY 2006, and the estimated net county replacement payments in the table above are based on this average. The table below provides the schedule for the phaseout of county replacement payments.

Fiscal Year Impact	County Replacement Payment Phaseout
FY 2013	91% of replacement payments made for FY 2012
FY 2014	82% of replacement payments made for FY 2012
FY 2015	73% of replacement payments made for FY 2012
FY 2016	64% of replacement payments made for FY 2012
FY 2017	55% of replacement payments made for FY 2012
FY 2018	45% of replacement payments made for FY 2012
FY 2019	36% of replacement payments made for FY 2012
FY 2020	27% of replacement payments made for FY 2012
FY 2021	18% of replacement payments made for FY 2012
FY 2022	9% of replacement payments made for FY 2012
FY 2023	End of replacement payments

Background Information - Counties retain 8% of the Inheritance Tax collected on transfers made by Indiana residents and are guaranteed a statutorily determined amount from the Inheritance Tax under P.L.254-1997. This legislation increased the Class A exemption to \$100,000, effective July 1, 1997, and required the state to annually transfer money from the state General Fund to counties to replace county Inheritance Tax revenue lost due to the exemption increase. The replacement provision guarantees that each county receive an amount of Inheritance Tax revenue equal to the five-year annual average amount of Inheritance Tax received by that county from FY 1991 to FY 1997, excluding the highest year and lowest year. The total annual guarantee to counties is approximately \$7.4 M. Thirteen counties received less revenue than is guaranteed by statute for FY 2011, totaling about \$108,000. Replacement payments have averaged about \$113,000 since FY 2006. Because most counties retain more in Inheritance Tax revenues than is guaranteed in the replacement statute, most counties will not receive replacement payments. Replacement payments will end in FY 2023.

A copy of the spreadsheet showing the amount of Inheritance Tax replacement guaranteed to each county under P.L. 254-1997 is available from the Office of Fiscal and Management Analysis.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties.

Information Sources: OFMA Inheritance Tax Database; Revenue Technical Committee, *State Revenue Forecast, Fiscal Years 2012 and 2013*, December 14, 2011; Quarterly Inheritance Tax Reports, FY 1997-FY 2011.

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